

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**CASS COUNTY MUTUAL
INSURANCE COMPANY**

CASSELTON, NORTH DAKOTA

**AS OF
DECEMBER 31, 2019**



STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Cass County Mutual Insurance Company

Casselton, North Dakota

as of December 31, 2019, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 7th day of
March 2022.





Jon Godfread
Commissioner of Insurance

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
STATUS OF PRIOR EXAM FINDINGS	1
SUBSEQUENT EVENTS.....	2
HISTORY	2
Membership	3
MANAGEMENT AND CONTROL.....	3
Directors.....	3
Officers	3
Committees	4
Executive Committee.....	4
Audit Committee	4
CORPORATE RECORDS	4
Articles of Incorporation and Bylaws.....	5
Articles of Incorporation and Bylaws.....	5
Members.....	5
Directors.....	5
Conflict of Interest.....	5
SUBSIDIARIES AND AFFILIATES	5
FIDELITY BOND AND OTHER INSURANCE.....	6
TERRITORY AND PLAN OF OPERATION	6
MARKET CONDUCT ACTIVITY.....	6
Treatment of Policyholders.....	6
REINSURANCE.....	7
ACCOUNTS AND RECORDS	8
Custodial Agreements.....	8
FINANCIAL STATEMENTS.....	9
CONCLUSION.....	12
COMMENTS AND RECOMMENDATIONS	13

Casselton, North Dakota
January 18, 2022

Honorable Jon Godfread
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue,
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination was made of the books, records, and financial condition of

Cass County Mutual Insurance Company

Statutory Home Office
830 Front St
Casselton, North Dakota 58012

Cass County Mutual Insurance Company hereinafter referred to as the ("Company"), was last examined as of December 31, 2014, by representatives of the North Dakota Insurance Department, hereinafter referred to as the ("Department").

SCOPE OF STATUTORY EXAMINATION

This examination was a financial condition examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2015, to December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

STATUS OF PRIOR EXAM FINDINGS

Our examination included a review to determine the current status of the 16 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2010, to December 31, 2014. We determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation

Response

It is recommended that the Company implement procedures for monitoring asset concentrations to maintain compliance with N.D.C.C. § 26.1-05-19(20)(a).

Company did not Comply. On December 31, 2019, the Company held two securities with a market value totaling \$208,380.08. Each security individually exceeded the Company's statutory 3 percent concentration limit of \$76,427. Per N.D.C.C. § 26.1-05-19(20)(a): Investments in preferred, guaranteed, and common stocks issued or guaranteed by a single person may not exceed three percent of the insurance company's admitted assets. **It is again recommended that the Company implement procedures for monitoring asset concentrations to maintain compliance with N.D.C.C. § 26.1-05-19(20)(a).**

Findings and recommendations related to the above areas are addressed under various captions below for the current period under examination.

SUBSEQUENT EVENTS

No significant subsequent events were noted during the examination.

HISTORY

The Company was incorporated and commenced business on March 10, 1888, with its home office and principal place of business at Casselton, North Dakota.

The Company is organized pursuant to the provisions of N.D.C.C. § 26.1-13 to insure against all of the risks and to possess all of the powers and to be subject to all of the liabilities and duties of a county mutual insurance company as now provided in N.D.C.C. § 26.1-13 and as the same may be from time to time amended in the future. The Company's term of existence is on a perpetual basis in accordance with N.D.C.C. § 26.1-13-03.

At the annual meeting of the membership held on June 3, 1996, the policyholders amended the Articles of Incorporation restating the Articles and changing the Company's name from Farmers County Mutual Fire & Lightning Insurance Company to Cass County Mutual Insurance Company.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by its membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges of membership. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The management of the Company's affairs, business, and property is vested in a Board of Directors composed of seven members elected for staggered terms of three years each at the annual meeting of the business at any meeting of the membership. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

Directors duly elected and serving the Company at December 31, 2019, were as follows:

<u>Name and Residence</u>	<u>Term Expires</u>	<u>Occupation</u>
David Piper Durbin, ND	2020	Farmer and CPA
Michael Nelson Casselton, ND	2022	Farmer
Don Gibson Leonard, ND	2020	Farmer
Kent Rood Alice, ND	2020	Farmer
Brad Sessler Wahpeton, ND	2021	Bank President
Eileen Schultz Wheatland, ND	2021	Farmer
Linda Sell Casselton, ND	2022	Insurance Agent

Officers

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year. Officers serving at December 31, 2019, were as follows:

Name

Office

David Piper
Michael Nelson
Tracey Sherman

President
Vice President
Secretary-Treasurer

Investment Committee

As appointed by the Board of Directors, the following individuals served on the Investment Committee at December 31, 2019:

David Piper
Michael Nelson
Tracey Sherman

The committee met 1 time in 2015, 2 times in 2016, 4 times in 2017, 5 times in 2018 and 6 times in 2019.

Executive Committee

As appointed by the Board of Directors, the following individuals served on the Executive Committee at December 31, 2019:

David Piper
Michael Nelson
Linda Sell

The committee met 1 time in 2016, 2 times in 2017, 4 times in 2017, 3 times in 2018 and 1 time in 2019.

Audit Committee

As appointed by the Board of Directors, the following individuals served on the Audit Committee on December 31, 2019:

Harold Lemar
Eileen Schultz

The Company's audit committee met annually throughout the examination period.

CORPORATE RECORDS

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

Articles of Incorporation and Bylaws

Effective August 1, 2019, the Board approved amended articles of incorporation and bylaws. The bylaws amendments removed assessment language to conform with legislative changes.

Board of Director, Policyholder, and Committee Minutes

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

Members

During the period under examination the annual meetings of the policyholders were held on the following dates: May 27, 2015; June 15, 2016; June 14, 2017; June 13, 2018; June 12, 2019.

Directors

During the period under examination, the Board of Directors held three meetings in 2015, five in 2016, four in 2017 and 2018, and five meeting in 2019.

Conflict of Interest

The Company has a conflict-of-interest policy for directors, officers, and key employees and conflict of interest disclosure statements are completed annually. The conflict-of-interest statements for the years under examination were reviewed and all conflicts were noted and accepted.

SUBSIDIARIES AND AFFILIATES

The Company incorporated Knecht Insurance Agency, Inc. ("KIA") and on November 19, 2009, made an initial capital contribution of \$15,000 into KIA for working capital. On January 1, 2010, the Company purchased the agency assets of Bob Knecht for \$155,000. The total investment in KIA exceeded the 10 percent of insurer asset limitation under NDCC § 26.1-10-05(2)(a). At December 31, 2019, the market value of KIA was \$130,606.26. This holding exceeded the Company's statutory 3 percent concentration limit of \$76,427.

Per N.D.C.C. § 26.1-05-19(20)(a):

Investments in preferred, guaranteed, and common stocks issued or guaranteed by a single person may not exceed three percent of the insurance company's admitted assets.

It is again recommended that the Company implement procedures for monitoring asset concentrations to maintain compliance with N.D.C.C. § 26.1-05-19(20)(a).

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2019, the Company had a \$100,000 fidelity bond in force, insuring against loss sustained by the Company as a result of dishonest or fraudulent acts committed by an employee. The coverage meets the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*.

The Company also had in force a combined professional liability and a directors and officers liability insurance policy providing a limit of liability of \$2,000,000 per claim, per policy year. Each claim is subject to a \$10,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

A businessowners policy provides property coverage of \$210,000 on an actual cash value for the office building in Casselton and business personal property coverage of \$30,000. The policy also provides general business liability coverage of \$500,000 per occurrence and a \$1,000,000 aggregate limit.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company had 79 appointed agents and 15 agencies and was authorized to transact business within the following counties:

Barnes	Burleigh	Cass	Dickey
Emmons	Foster	Grand Forks	Griggs
Kidder	LaMoure	Logan	McIntosh
Ransom	Richland	Sargent	Steele
Stutsman	Traill	Wells	

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Claims

Based on a limited view of claim files, the Company pays claims fairly within policy provisions upon receipt of satisfactory proof of loss or damage. Multiple Director and related party claims

were noted during the examination period. The Company does not have a formal process for reviewing and approving related party claims during Board meetings.

It is recommended that all related party claims be approved by the full Board.

Advertising

The Company's advertising consists primarily of newspaper, directory advertising, and miscellaneous ads (i.e., county fair). The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

Rates and Forms

Company approved agreement with "Invoice Cloud" for online/credit payments on 9/10/2018 Board Meeting. Cass County Mutual Insurance have no State Filing for online/credit cards payments.

Per N.D.C.C. § 26.1-30-19(1):

No insurance policy, contract, agreement, or rate schedule may be issued or delivered in this state until the form of that policy, contract, agreement or rate schedule has been filed with and approved by the commissioner.

It is recommended that the Company file all rates and forms used with the Department prior to use in accordance with N.D.C.C. § 26.1-30-19(1).

OPERATING AGREEMENTS

Grinnell Adjusting Service

On October 31, 2013, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting and risk review services.

For services provided in 2019, Grinnell Advisory Company was paid \$20,625. The fee charged is a flat rate for up to 75 claims. Any additional claims would be billed at \$450 per claim.

REINSURANCE

The following is a summary of the Company's significant reinsurance contracts in force at December 31, 2019:

Nonaffiliated Ceding Contract:

Type:	Excess of Loss
Reinsurer:	Grinnell Mutual Reinsurance Company
Scope:	All policy forms and endorsements issued by the Company: (A) Individual Occurrence of Loss Excess - Covers up to \$20 million in losses from fire and windstorm risks written by the Company in excess of a \$125,000 retention. (B) Aggregate Excess - provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2019 was \$550,000.
Premium:	(A) Property Per Risk Excess of Loss - The 2019 annual premium was \$27,588. (B) Aggregate Excess - The 2019 annual premium was \$107,328.
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days' notice in writing.

The contract contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2019, was obtained and traced to the appropriate schedules of the Company's 2019 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

Custodial Agreements

The Company's securities are held under an agreement executed with Wells Fargo Advisors, LLC, (Wells Fargo). This agreement was reviewed and found to be in compliance with N.D. Admin Code § 45-03-23-02.

At December 31, 2019, the Company held one security with a market value totaling \$77,773.82. This ETF individually exceeded the Company's statutory 3 percent concentration limit of \$76,427. Per N.D.C.C. § 26.1-05-19(20)(a):

Investments in preferred, guaranteed, and common stocks issued or guaranteed by a single person may not exceed three percent of the insurance company's admitted assets.

It is again recommended that the Company implement procedures for monitoring asset concentrations to maintain compliance with N.D.C.C. § 26.1-05-19(20)(a).

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, and Surplus as of December 31, 2019, and a Statement of Income for 2019.

These financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**Cass County Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2019**

ASSETS

LEDGER ASSETS:

Bonds	\$811,625
Stocks	843,739
Real estate	157,240
Checking Account	8,199
Cash on Deposit	599,682
Furniture and Fixtures	16,088

TOTAL LEDGER ASSETS **\$2,436,573**

NON-LEDGER ASSETS:

Interest Due and Accrued on Bonds	\$8,069
Interest due and accrued on certificates of deposit and passbook savings	1,872
Assessments or premiums in course of collection	
Market Value of Stocks over Book Value	48,637
Misc. non-ledger assets:	68,743
	<u>23,965</u>

TOTAL NON-LEDGER ASSETS **\$151,286**

DEDUCT: ASSETS NOT ADMITTED

Furniture and Fixtures	\$16,088
Assessments or premiums over 90 days due	<u>229</u>

TOTAL NON-ADMITTED ASSETS **\$16,317**

TOTAL NET ADMITTED ASSETS **\$2,571,542**

LIABILITIES

Unpaid Losses	\$ 103,810
Incurred But Not Reported Claims (IBNR) Estimate	10,500
Unpaid Loss Adjustment Expense	4,332
Advance Premiums	19,008
Unearned Premium Reserve	531,404
Commissions Due and Payable	15,690
Unpaid Taxes	6,576
Unpaid General Expenses	2,063
Reinsurance Premiums Due and Payable	11,243
Premiums Written for Others	6,150
Miscellaneous Liabilities	<u>5,798</u>

TOTAL LIABILITIES **\$716,574**

SURPLUS TO POLICYHOLDERS **\$1,854,968**

TOTAL LIABILITIES AND SURPLUS **\$2,571,542**

**Cass County Mutual Insurance Company
Statement of Income and Disbursements
as of December 31, 2019**

INCOME:

Gross Premium Income	\$1,092,030
Less: Return Premiums	47,279
Premiums for Reinsurance Ceded	<u>142,037</u>

NET PREMIUM INCOME \$902,714

Interest on Bonds	37,792
Dividends on Stocks	24,634
Gross Rent From Company's Property	15,800
Interest on Cash on Deposit	3,446
Profit on Sales or Maturity of Ledger Assets	54,471
Commissions and service fees received	23,026
Equip Breakdown	2,296
Other Income	461
Change in Suspense	(252)

TOTAL INCOME RECEIPTS \$1,064,388

DISBURSEMENTS:

Gross Losses Paid, Occurring During 2019	\$ 436,561
Gross Losses Paid in 2019, Occurring in Prior Years	41,826
Deduct: Salvage	6,290
Reinsurance Recovered	<u>17,861</u>

NET LOSSES PAID \$ 454,236

Claim Adjustment Expenses	22,956
Commissions Paid to Agents	191,367
Directors' Fees and Expenses	5,886
Salaries to Employees	99,468
Printing, Stationery, and Office Supplies	10,200
Rent and Rent Items	4,875
Real Estate Expenses	14,633
Taxes on Real Estate	1,754
State and Local Insurance Taxes	20,115
Insurance Department Licenses and Fees	937
Payroll Taxes	7,872
Federal income taxes	2,092
Legal Fees and Auditing	3,445
Travel and Travel Items	5,065
Advertising	10,513
Dues and Donations	8,337
Equipment	1,860
Insurance and Bonds	9,542
Postage, Telephone and Bank Charges	6,643
Employee Relations and Welfare	9,985
Data Processing Expenses	18,899
Risk Reviews and Other Underwriting Expenses	574
Miscellaneous Expenses	<u>11,991</u>

TOTAL FUNDS DISBURSED \$923,245

NET INCOME \$ 141,143

CONCLUSION

The financial condition of Cass County Mutual Insurance Company, Casselton, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$2,571,542</u>
Liabilities	\$ 716,574	
Surplus to Policyholders	1,854,968	
TOTAL LIABILITIES AND SURPLUS		<u>\$2,571,542</u>

Since the last examination conducted as of December 31, 2014, the Company's admitted assets have increased \$658,892 its total liabilities have increased \$190,099 and its surplus as regards to policyholders has increased by \$468,793.

The examiners express their appreciation for the courteous cooperation extended them during the course of this examination.

In addition to the undersigned, Chief Examiner Matt Fischer, CFE, and Supervising Examiner Colton Schulz, CFE, CFE (Fraud) participated in this exam.

Respectfully submitted,



Shrijana Chapagain
Examiner

N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company implement procedures for monitoring asset concentrations to maintain compliance with N.D.C.C. § 26.1-05-19(20)(a).

It is recommended that all related party claims be approved by the full Board.

It is recommended that the Company file all rates and forms used with the Department prior to use in accordance with N.D.C.C. § 26.1-30-19(1).